

## EXHIBIT U

Tesla Motors

# Shorts may be burned for now ... but buyer beware

Maintain Rating: UNDERPERFORM | PO: 200.00 USD | Price: 379.57 USD

Bank of America  
Merrill Lynch

Equity | 07 August 2018

## TSLA potentially to be taken private; much still unclear

During the afternoon of 7 August 2018, TSLA Chairman, CEO & Co-Founder Elon Musk tweeted the following: "Am considering taking Tesla private at \$420. Funding secured." Later, an internal email from Musk to TSLA employees was released detailing the rationale behind a privatization of the company. It should be noted that the proposal/transaction is far from finalized, and would require a shareholder vote. More importantly, although TSLA did confirm a potential privatization through Musk's statement, no theoretical transaction method, funding plan, or structure was outlined, and there is still some skepticism over whether such a transaction would ultimately (or even could) be executed. Ultimately, we view today's announcement as having substance given what appears to be at least three potential sources of capital (existing shareholders, Saudi Sovereign Wealth Fund, Chinese government and investment funds). Further credence was added with potential details in Musk's subsequent tweets regarding the setup of "special purpose fund" for existing investors to remain involved, commentary that no single shareholder would have control, and that he would remain on as CEO. Despite a new factor being thrown into the mix on TSLA's stock, namely a potential unsubstantiated Elon-led buyout, privatization of the company is still very much unclear at this point; and therefore, we maintain our Underperform rating.

## Funding secured? ... could be Saudis, Chinese, or others

Outside of TSLA's existing investor base, which has continued to supply the company with incremental capital over the past ten years without any evidence of tangible cash flow returns (and would likely continue to do so), we would highlight two key parties that we believe could play a role in taking TSLA private and could represent Musk's "Funding secured" comment. First, earlier this morning, it was reported that the Saudi Sovereign Wealth Fund has built a 3-5% stake in TSLA (below the 5% threshold requiring public disclosure). Second, Musk commented on the 2Q:18 earnings call that the company's "default plan will be to use essentially a loan from the local banks in China and fund the Gigafactory in Shanghai with local debt, essentially". We would also note that Chinese investment fund Tencent had already built a ~5% stake in TSLA. In our view, assuming the creation of a special purpose structure where existing shareholders could transfer their shares, either one or all of the aforementioned entities could fund the minimum incremental \$7bn required to take TSLA private at \$420/sh (implied market cap of \$72bn at share price of \$420 versus current market cap of \$65bn). However, if some or all existing shareholders became sellers, the capital to execute the transaction could rise as high as \$57bn+ (assuming Elon Musk maintains his stake).

## Still in need of capital; potentially different investor base

Importantly, today's announcement/speculation does not directly alleviate the very significant operational challenges at the company (Model 3 ramp, new product introductions, etc.), what could still be very material cash burn in 2H:18 and well beyond (related to Model 3 production ramp, Shanghai and other facility constructions), and the potential necessity of significant future capital raises (both in the near- and long-term), not to mention the prospect of incremental competition and longer-term obsolescence. Indeed, TSLA's ability to become self-funding at any point in the near future appears no more certain now than at its inception, in our view. However, it does appear, if speculation that TSLA will be taken private is true, that investors are willing to take on this risk, despite what could be less disclosure, information, and assurance upon privatization. While much remains to be further elucidated at this point in time, we do assign some credence to the speculation. However, we continue to question the longer-term profitability, cash flow, and valuation of TSLA.

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## Stock Data

Price	379.57 USD
Price Objective	200.00 USD
Date Established	1-Aug-2018
Investment Opinion	C-3.9
52-Week Range	244.59 USD - 389.61 USD
Mkt Val (mn) / Shares Out (mn)	62,927 USD / 165.8
Average Daily Value (mn)	3359.58 USD
BofAML Ticker / Ex change	TSLA / NAS
Bloomberg / Reuters	TSLA US / TSLA.O
ROE (2018E)	-26.7%
Net Dbt to Eqty (Dec-2017A)	121.5%

CR

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## Price objective basis & risk

### Tesla Motors (TSLA)

Our \$200 PO is based on a probability-weighted scenario analysis, applying average EV/Sales and EV/EBITDA multiples from a set of comparable companies to our 2019 TSLA estimates. We assume a 60% probability for our base case, and 20% probability each for our bull and bear case scenarios, roughly consistent with a bell curve distribution. In our bull case scenario, we view richly-valued tech companies as TSLA's comparable peer group given its expected growth trajectory and position at the forefront of EV technology. In our bear case scenario, we believe TSLA should be valued against low-multiple auto companies, given its failure to generate positive earnings and FCF thus far. In our base case scenario, we believe it is reasonable to use an average of the trading multiples for the two peer groups.

Downside risks: 1) inability to continue raising low-cost capital to fund business ventures, 2) inability to generate positive earnings and free cash flow, 3) slower ramp in electric vehicle demand, 4) setbacks or lack of advancements in battery technology, 5) fierce competition from incumbent OEMs, 6) inability to execute efficiently with higher volume, 7) low gasoline prices, and 8) loss of key management.

Upside risks: 1) better-than-expected execution and cost containment, 2) a sharp and sustained rise in gasoline prices, 3) a breakthrough in advanced battery technology, 4) increase in federal or state incentives, 5) short covering by the substantial % of short interest.

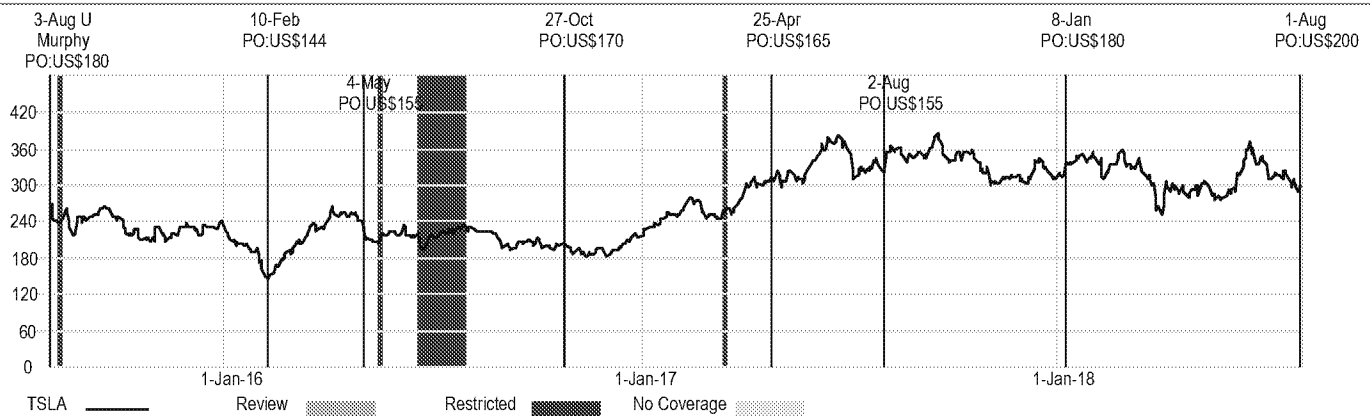
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**TSLA Price Chart**



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### Equity Investment Rating Distribution: Autos Group (as of 30 Jun 2018)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	45	50.00%	Buy	25	55.56%
Hold	22	24.44%	Hold	14	63.64%
Sell	23	25.56%	Sell	13	56.52%

### Equity Investment Rating Distribution: Global Group (as of 30 Jun 2018)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1639	55.35%	Buy	1044	63.70%
Hold	615	20.77%	Hold	390	63.41%
Sell	707	23.88%	Sell	340	48.09%

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